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FOREIGN AGRICULTURE ECONOMICS

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Cuba Shifts Trade in Farm Products to Soviet Bloc

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Cuba's open alliance with the Soviet Bloc disrupts trade ties with the United States dating back to Cuban independence in 1902.

U.S.-Cuban trade in farm products was not much affected in 1959, the first year of the Castro Government. Thereafter, Cuba's changing political and economic climate became increasingly clear. U.S. property on the island was expropriated. Cuban industry, agriculture, and trade came under Government control. Customary markets and sources in the United States were bypassed in favor of barter trade with the Soviet Union, mainland China, and other Bloc countries.

By late 1961 the Castro Government had openly declared its alignment with international Communism.

In January 1962 a majority of Western Hemisphere republics voted to exclude Cuba from the inter-American system as a threat to hemisphere security. In accord with this decision, the United States imposed an embargo on all U.S.-Cuban trade effective February 7. The embargo permits only unsubsidized foods, medicines, and medical supplies to be shipped to Cuba on humanitarian grounds.

The embargo extends to all trade the partial trade restrictions imposed earlier. In July 1960 Cuba's sugar quota was cut for the remainder of the year; the 1961 quota was set as zero and no Cuban sugar has since been imported. No restrictions were imposed at that time on other imports from Cuba.

U.S. exports to Cuba were restricted in October 1960 and further curtailed in March 1961. In effect these restrictions limited U.S. exports to certain foods, and medicines and medical supplies.

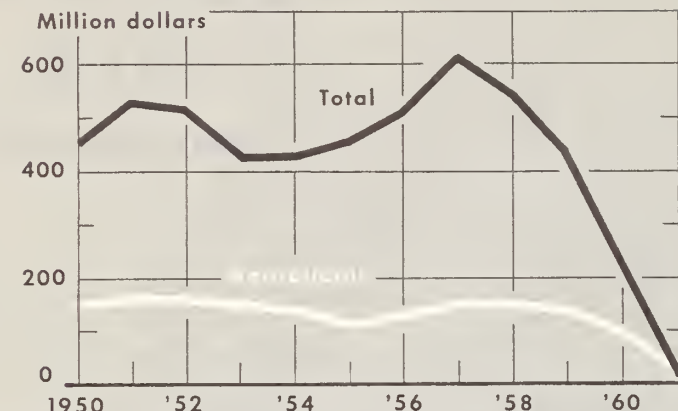
Cuba had already shifted from the United States to the Soviet Bloc as its chief source of supply before the total embargo was imposed. Therefore, the embargo does not in practice deprive U.S. exporters of sizable markets.

U.S.-Cuban Trade, 1902 to 1961

For almost 6 decades Cuba traded mostly with the United States under a system of mutually low tariffs. Both countries granted preferential duties on many items moving in U.S.-Cuban trade.

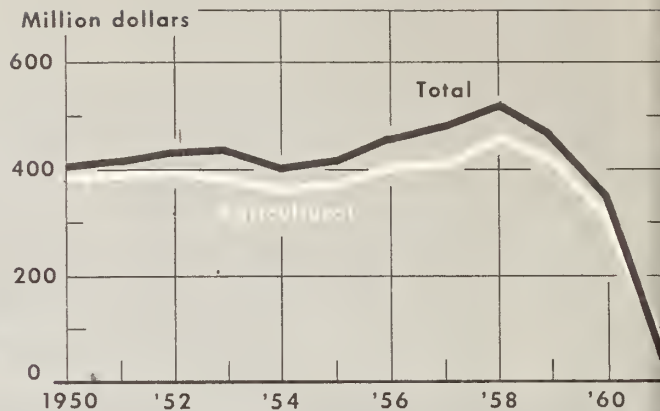
Decline in U. S.-Cuban Trade

U. S. Exports to Cuba



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U. S. Imports from Cuba



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Close trade ties were important to both nations. With little developed industry other than sugar, Cuba relied almost entirely on an agricultural economy to support a growing population now estimated at 7 million. A few cash crops provided the export earnings needed to buy abroad the machinery, raw materials, consumer goods, and many foodstuffs Cuba does not produce. Since World War II, exports have represented about one-third of Cuba's gross national product.

In 1958, Cuba was the largest exporter, on a per capita basis, of farm products in Latin America and the second largest importer. Local foods and food imports enabled the Cuban people to be among the best fed in Latin America.

Cuba's economy was and still is keyed to sugar. In 1959 Cuba provided about one-third of all sugar moving in world trade, 5 times as much as its closest competitor. The sugar industry employed half a million workers, accounted for 82 percent of the Cuban railroad traffic and 80 percent of total exports. In contrast, unmanufactured tobacco, the second export crop, made up only about 6 percent of total exports by value.

With the economy so closely tied to sugar production and trade, Cuba was directly affected by the rise and fall of world sugar markets and prices. A guaranteed market in the United States at above-world-market prices for much of its sugar helped Cuba to withstand world market fluctuations. For many years it had the largest U.S. sugar quota of any offshore supplier. For this country Cuba offered a steady and reliable source of sugar only 90 miles off the tip of Florida.

Prewar, Cuba marketed over 80 percent of its sugar in the United States, about 60 percent after the war as European markets expanded. In the 1950's Cuban sugar sales in this country averaged \$323 million a year.

About three-fourths of Cuba's tobacco exports were also sold in the U.S. Nearly a fourth of all tobacco used in U.S. cigars in the last few years was Cuban tobacco. About two-thirds of all cigars smoked in this country contained some Cuban leaf, valued for its unique aroma and flavor.

Other Cuban farm products marketed largely in the United States were coffee, cacao, fresh fruits and vegetables. In 1958, the last year of normal trade, this country bought two-thirds of all Cuba's agricultural exports.

That year the United States in turn supplied three-fourths of Cuba's farm imports. Cuba for many years was our best market in Latin America for farm products. With well over half of its cropland planted to sugarcane, the island imported 25 to 30 percent of its food, mostly from the United States.

Since Cuba's climate is not good for growing wheat, the United States supplied most of the wheat and wheat flour imports. After Cuba started its own milling industry in 1952, wheat flour imports declined but the mills relied largely on U.S. wheat.

In 1958 Cuba ranked seventh among world markets for U.S. farm products, importing more U.S. rice, lard, dry beans, and several other important farm commodities than any other country. U.S. farm exports to Cuba throughout the 1950's ran about \$140 million a year.

Although the Castro Government took over on January 1, 1959, trade with the United States did not begin to decline until late in the year. The Cuban Government's decision to obstruct imports from this country and encourage barter trade with the Soviet Bloc was more evident in 1960.

The U.S. became increasingly concerned about the reliability of Cuban sugar sources. In July 1960 it therefore cut Cuba's quota for the rest of the year and closed its markets entirely to Cuban sugar in 1961 and after. Tobacco then became Cuba's largest dollar earner, accounting for over 95 percent of U.S. farm imports from Cuba in 1961.

U.S. agricultural exports to Cuba declined rapidly. Whereas they had averaged \$140 million for almost a decade, in 1961 they amounted to only \$9.8 million.

This decline reflected Cuba's shift to Communist sources of supply and to the partial U.S. embargo on exports to Cuba in 1960-61. Although unsubsidized foods and medicines were still eligible for export after that period, the Castro Government purchased few unrestricted items. The last reported shipments of U.S. farm products to Cuba were in July 1961 and totalled only \$345,000.

Shift to Soviet Bloc

While Cuba traded most extensively with the United States until 1959, it also maintained trade relations with many other countries, chiefly in Latin America and Europe. Only after the Castro forces assumed control

did political ties and a shortage of dollar exchange lead to a complete redirection of Cuban trade toward the Soviet Bloc.

From mid-1960 on, Cuba signed trade agreements with most Bloc countries: the Soviet Union, East Germany, Poland, Czechoslovakia, China, Hungary, Bulgaria, Rumania, North Korea, Outer Mongolia and Albania. In addition, trade agreements have been concluded with Ceylon, Japan, Yugoslavia, and the United Arab Republic.

The agreements provide for the exchange of many farm products. In addition, Bloc countries agree to send Cuba various types of machinery, communications equipment, electrical plant, and mining machinery and equipment. Some agreements call for scientific and technical assistance and large grants of credit to Cuba.

Most of Cuba's food import needs are now supplied by the Bloc. In the first few months of 1961 the USSR reportedly supplied all of Cuba's wheat, nearly all of its soy flour, most of its beef and pork, animal feed, raw cotton, and condensed milk, and almost half of its flour. The rest of Cuba's meat imports came from Poland and Communist China. China also provided over half of Cuba's rice, most of the rest coming from the United Arab Republic.

It appears that Cuba's 1961 imports, on a tonnage basis, about equaled the peak year of 1958 when most imports came from the United States. Some 80 to 85 percent of 1961 tonnage was of Communist origin.

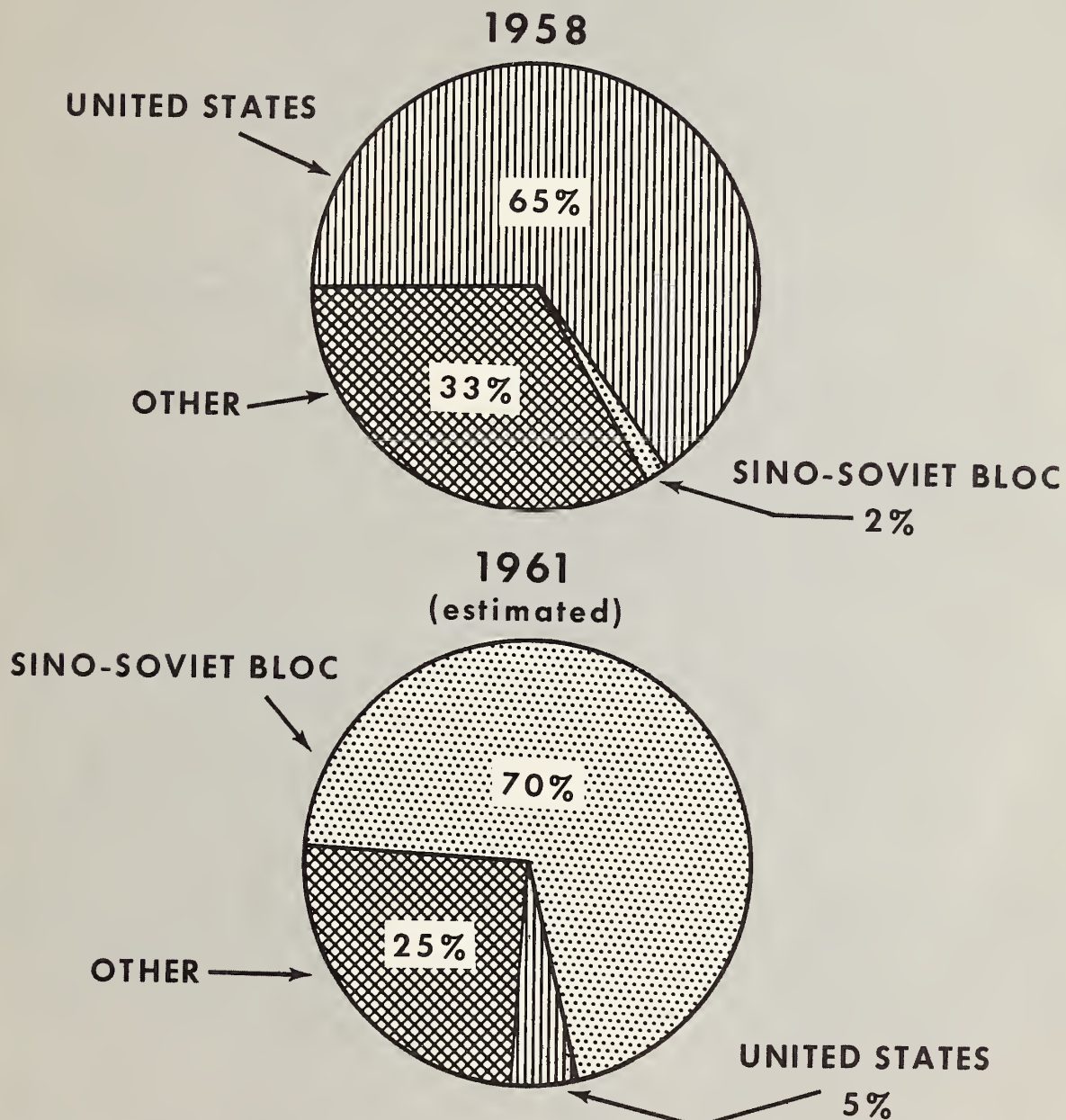
However, the Bloc seems unable to supply needed amounts of such food-stuffs as lard, rice, beans, and pork formerly imported from the United States and other Free World sources. The Castro Government has admitted, for example, serious shortages of lard and some meats. Soviet sunflower oil is being tried as a substitute for U.S. soybean oil. Ammonia shortages are reported to be curtailing Cuba's production of nitrogenous fertilizers.

Cuba is still trading somewhat with Free World countries. It is buying condensed and evaporated milk from Canada and the United Kingdom, for example, and dry beans from Japan. But with U.S. markets closed and Bloc barter agreements generating no hard currency earnings, Cuba's purchases from Free World sources are limited by its dwindling foreign exchange. Gold reserves and dollar holdings in December 1959 were estimated at \$296 million. By the end of 1960 they had dropped to \$79 million. Gold reserves are now believed negligible.

Despite Cuba's loss of its U.S. sugar market, exports of 6.4 million metric tons in 1961 were the largest ever recorded. Such Free World countries as Canada, Ceylon, Chile, Japan, and Morocco took relatively small amounts. Almost 5 million tons went to the Bloc, primarily to the Soviet Union, mainland China, Poland, and East Germany.

Moreover, the Bloc has agreed to take just under 5 million metric tons each year from 1962 through 1965. What it plans to do with so much sugar is

Shift in Cuban Farm Exports



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not known. Communist countries have never been large sugar importers. In 1958 and 1959 the Bloc as a whole was a net exporter of sugar. Yet in 1961 sugar imports from Cuba increased by 50 percent the sugar available for domestic use in the Soviet Union.

Prospects for Cuban Agriculture and Trade

Agriculture in Cuba is now a state managed industry. The Government owns about 40 percent of the farmland. The rest is rigidly controlled by the National Association of Small Farmers, a Government agency charged with coordinating the activities of small private farms to meet national goals.

The Government inherited an agricultural economy that had grown steadily for more than half a century. Farm output in the late 1950's was twice the 1935-39 level, showing an average annual growth of 3.5 percent over the two decades. Furthermore, Cuba has the climate, labor supply, and untapped land resources to expand production of crops now grown and to diversify into new crops.

In 1961 the Government launched a five year plan for economic development. It announced that farm output would be increased under state management at a much faster rate than that achieved in the last 20 to 25 years.

Factors limiting progress in the farm sector are lack of trained managers, skilled technicians, and economic incentives. Disruptions caused by Government controls, and the difficulty in obtaining farm machinery, spare parts, fertilizers, pesticides and other farm inputs from Communist sources also tend to retard production. When spare parts were needed in the past, for instance, a telephone call to Miami resulted in fast delivery to Havana. Now many replacements must be transshipped from Czechoslovakia and the Soviet Union through Polish and North Sea ports.

While sugar production can be expanded, world markets for Cuban sugar may become more limited. Output in most producing countries, including the Soviet Union, has risen sharply in recent years. In 1951-55 Cuba produced over 15 percent of the world's raw sugar. By 1961 it produced less than 12 percent. In view of the recent Soviet Bloc agreement to take almost 5 million metric tons of Cuban sugar yearly through 1965, Cuba will apparently be able to dispose of most of its sugar produced under the five year plan.

Future production of tobacco will likely depend on Cuba's success in finding markets abroad. Although the U.S. formerly took three-fourths of the unmanufactured tobacco exports, the crop harvested early in 1962 was evidently not reduced in anticipation of the U.S. embargo. In the past only token amounts of Cuban tobacco were exported to the Soviet Bloc. What the Cuban Government plans to do with this valuable cash crop is unknown.



Growth Through Agricultural Progress